

STARTING A SMALL BUSINESS

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Ontario

Ministry of
Consumer and
Commercial
Relations

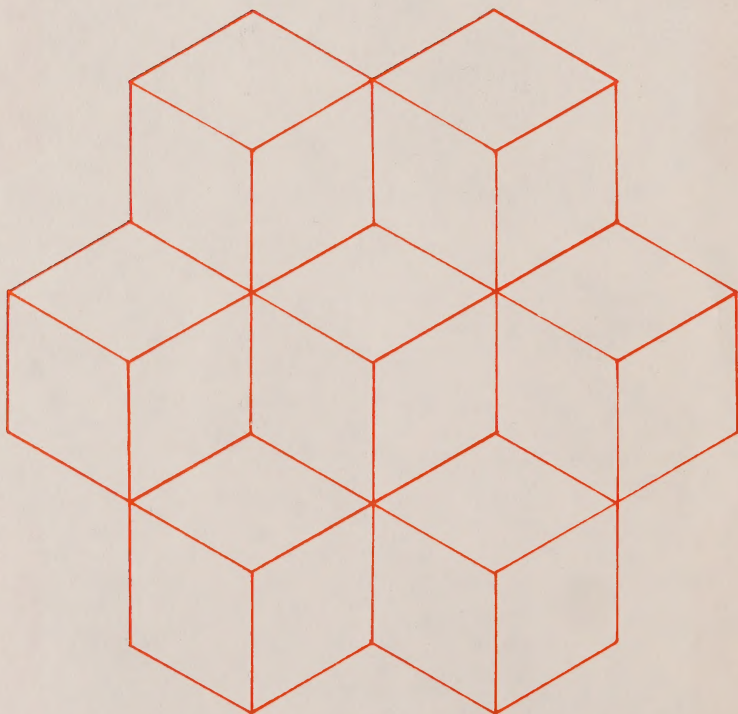
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Almost everyone dreams of owning a business. But too often these dreams turn into financial nightmares. About 70 per cent of all new businesses fail within the first five years.

This booklet provides guidelines for setting up a new business in Ontario. It alerts the prospective small business owner to some of the major problems and suggests ways to avoid them. However, it is not all-inclusive.

Further information is available by writing to the addresses in the small business directory at the back of this booklet and to your local public library.

Many colleges and community organizations also offer courses in starting your own business.



Planning

Business experts agree that poor planning is one of the main reasons so many small businesses fail. Although planning needs will vary with each type of business, here are some of the pointers that should be carefully considered before launching a business. Further advice is available from the small business division of the ministry of industry and tourism.

Determine the age, sex, income bracket and shopping habits of potential customers through thorough market research.

Assess the competition. Is your product or service better, cheaper or more convenient?

Be sure your price will cover your costs while remaining competitive.

Determine the most effective and economical means of advertising.

Find out about present and future zoning regulations. Be sure to obtain approval for the use of your building from all government regulatory bodies including zoning and health officials and the fire marshal.

Contact your local municipality to find out if you require any licences. Truck licences are available from the ministry of transportation and communications.

Find a location near transportation facilities such as railway and air terminals. Make sure staff, markets and suppliers are within easy travelling distance.

Examine hydro, water, sewer and other utilities to determine whether they will meet your needs without being too costly.

Make lists of the type and amount of equipment you'll need.

Decide how many skilled and unskilled employees you will need. Your local Employment Canada centre provides employment services for employers and workers. It also publishes information on labor supply and

demand in all industries and occupations and provides technical and financial assistance to employers for training and upgrading employees.

If you will be exporting or importing goods, contact your local chamber of commerce to find out if you need any special certificates or licences.

Employee costs

As well as paying your employees' wages, you'll have to provide pay for employee benefits such as Canada Pension Plan and unemployment insurance. These benefits comprise an average of 22 per cent of the employees' wages according to some surveys.

You may also offer additional benefits such as paying health insurance premiums or providing a dental plan.

If your business employs 15 or more people, the Ontario Health Insurance Plan requires you to provide group participation. Firms with six to 14 employees may also apply for group coverage by contacting their OHIP field representative.

Participation in the CPP, which provides a basic retirement pension for all those who have been in the work force, is compulsory in most cases. Employers must deduct a percentage of the employees' wages, provide a matching contribution and send the total to Revenue Canada along with income tax deductions.

All employees must be insured with the Unemployment Insurance Commission. Employers, employees and the federal government contribute to this fund.

The fund pays unemployed workers to help replace lost income. Employers are responsible for maintaining the employment records on which insurance benefits are based. For complete details contact your local Employment Canada office.

If you are in an industry covered by The Workmen's Compensation Act, as most are, you must pay annual assessments and promptly report personal injury accidents and industrial illnesses to the Workmen's Compensation Board.

Financing

You need money to make money. You'll need capital to cover the initial costs of setting up the business and daily operating expenses. You should also have some working capital left over from this so you can take advantage of bargain prices or survive temporary set-backs.

Before approaching anyone for financial assistance, open a bank account in your firm's name.

Initial costs may include land, building, fixtures, machinery, supplies, vehicles and goods. Salaries, rent, taxes, advertising and maintaining inventory account for some of the daily operating costs.

Because you must know what these costs total to determine your financial needs, prepare a cash flow forecast for the first 12 months. Information about how to estimate your future cash flow is available from the small business division of the ministry of industry and tourism. A bank manager, accountant or bookkeeper can also help you with this.

Once you have figured out how much money you will need, find out where you can get it. Loans may be obtained from business associates, chartered banks and government agencies. Further information on federal assistance programs may be obtained by contacting the Federal Business Development Bank, the Department of Finance, the Department of Regional Economic Expansion, the Export Development Corporation and the National Research Council. For provincial assistance contact the Ontario Development Corporation. In some cases friends and relatives may be able to help with financing. Credit may also be arranged through these financial sources.

With long-term loans you can buy fixed assets such as buildings and machinery. These assets may be pledged as collateral for loans. Long-term loans are generally paid back in equal monthly instalments.

Short-term loans will pay for current assets such as inventory. The amount of weekly or monthly payments on these loans may fluctuate depending on need.

The lender will want to know facts about your business, your 12-month cash flow projections, ability to repay the loan, anticipated profits and losses for the first two years, a list of assets and other securities for collateral, your business experience and your personal net worth.

The lender may require the borrower to maintain a specific amount of working capital, provide financial statements, sell assets or make other changes.

If you are considering buying an existing business, check with one of the business reports such as Dun and Bradstreet. These reports, available through your bank manager, provide financial details about most businesses.

Tips from the experts

Experienced business people also offer these suggestions.

- Keep your expenses low.
- Know how to attract new business.
- Make sure you arrange benefits such as hospital insurance.
- Maintain a proper set of records.
- Set up medical and disability insurance programs as well as a pension plan for your employees.
- Unless you have plenty of money, don't put a lot of capital into fixed assets.
- Recognize your limitations.
- Watch your balance sheet—not just the profits.

Consult the experts

Although many people start their own businesses because of the independence it brings them, few enterprises would survive without outside expert advice.

An accountant can help explain various laws involved, including tax regulations, and help organize the financial side of the business. Accountants advertise their services in the yellow pages of your telephone book.

Consulting firms also offer advice on a wide range of subjects, including marketing.

If you are importing goods, you may require the services of a customs broker.

A lawyer can help you make many of the legal decisions involved in starting a small business. In many communities, lawyer-referral services, sponsored by the Law Society of Upper Canada, or other information centres can put you in touch with a lawyer specializing in the area, such as corporate law, in which you require assistance.

Comparison shop before you hire an expert. Ask friends and local business organizations to suggest reputable and reasonably-priced accountants and lawyers.

Small business and the law

Every business, large or small, is subject to laws and regulations. These are designed for the overall good of the public and the protection of the consumer. Careful planning and sound legal advice will keep the small business person from becoming overwhelmed by red tape.

One of the first legal decisions you'll be required to make is whether to form a sole proprietorship, partnership or corporation.

Sole proprietorship

This is the simplest way of starting a business. Because registration costs only \$10 and a lawyer may not be required, it can also be the cheapest arrangement.

However, it also means that you have the sole responsibility for the success or failure of the business. If it fails, you assume total liability which could result in the loss of your home and personal possessions.

Profits are also personally taxable and corporate tax options are not available to the sole proprietor.

Employee profit-sharing and pension plans, available to corporations, cannot be offered.

If you wish to carry on business as a sole proprietorship under a name other than your own, you must register the name within 60 days of starting the business with the partnerships registry office in the companies services branch of the ministry of consumer and commercial relations.

This means that if your name is Mary Smith and your business is called Mary Smith you don't need to register. But if your business is Mary Smith Fashions, you must register.

Partnership

Entering into a partnership can be slightly more complicated. You and your partner(s) will have to decide how much capital each will have to invest and how to divide profits and management responsibilities. It may be advisable to have a lawyer draw up a partnership agreement setting out each partner's rights and obligations. The registration fee is the same as for sole proprietorships. You will have to complete a registration form which must be filed with the partnerships registry office within 60 days of the partnership formation.

The major drawback is that you are liable for your partners' business debts and liabilities as well as your own.

Profits are also personally taxable in this arrangement and profit-sharing and pension plans cannot be offered.

The partnership is also automatically dissolved upon the death of a partner.

Incorporation under provincial law

Corporations fall into two categories: those which offer securities to the public and those which do not.

Those offering securities will have to meet certain public disclosure requirements on their financing and profits by filing reports with the Ontario Securities Commission.

Ontario corporations not offering securities to the public are required to have only one director. Those which offer securities to the public must have at least three directors. Only one of the directors may be an officer or employee of the corporation or its affiliates. The majority of the directors of Ontario corporations must be resident Canadians.

To incorporate, articles of incorporation must be filed with the companies services branch of the ministry of consumer and commercial relations. The minimum registration fee is \$125. Lawyers' fees are usually about \$500.

Corporations incorporated under Ontario law doing business or owning property in another province must take out a licence or register in that province. Generally, a licence or registration can be obtained by filing an application with the appropriate office of the province concerned and paying the prescribed fee. A reciprocal agreement between Ontario and Quebec waives this requirement.

One of the most important advantages of incorporating is that your liability is limited to the amount of money you invested in the corporation, although in some instances you may also be responsible for unpaid wages if the business fails.

A wider range of tax options and deductions is also available to corporations. Pension and profit-sharing plans, which may also

provide tax advantages, can also be offered to your employees. Details are available through lawyers, accountants and insurance agents.

Because a corporation is considered to be a separate legal entity, the corporation can also carry on after your death.

Incorporation under federal law

Corporations incorporated under the Canada Business Corporations Act can carry on business in all provinces without additional licences. These corporations are subject to provincial laws governing tax payment and land holding. To do business in Ontario, a corporation—whether federally incorporated or incorporated in another province or country—must file information notices under The Corporations Information Act with the companies service branch of the ministry of consumer and commercial relations. To hold land these corporations must also obtain a licence.

Franchising

Buying a franchise means purchasing the right to operate a business according to a system that has been established. The product or service being sold is identified by the franchising company's trade mark. The franchisor maintains some control to ensure uniformity of services throughout the franchise outlets.

Before buying a franchise, find out as much as you can about the company, its products and the franchise agreement.

If the franchisee is a sole proprietor or a member of a partnership, the name of the franchise must be registered with the partnerships registry office.

If the franchise owner is incorporated and carrying on business under a name other than his or her corporate name, he or she must register the name with the partnerships registry office. For example, if your company is incorporated under the name of John Smith Enterprises Limited and through this company you buy a Yummy Burger franchise, you will have to register the Yummy Burger name.

Booklets about franchising are available from the Consumer Information Centre, ministry of consumer and commercial relations. Further information may also be obtained from the Association of Canadian Franchisors.

Labor

Although labor legislation is generally a provincial responsibility, workers in industries within federal jurisdiction such as transportation and pipelines are subject to the Canadian Labour Code.

The Employment Standards Act, administered by the ministry of labour, controls work hours, wages, vacation time and similar matters.

According to the Act, no employee may work more than 48 hours a week without permission from the employment standards branch.

Employees working more than 44 hours a week or any of the seven annual statutory holidays must be paid one and a half times their normal hourly rate.

Two weeks' paid vacation after 12 months' employment is compulsory.

Women must be paid the same as men doing substantially the same work.

Further information is available from the Ontario ministry of labour, employment standards branch.

Freedom of association is guaranteed by legislation and employers are required to bargain with the union representing the majority of employees. Wages, work hours, benefits, vacations and other aspects of working conditions are normally settled through collective bargaining.

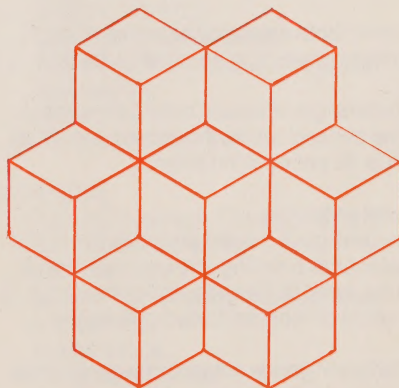
For further information, contact the industrial relations division of the ministry of labour.

Discrimination on the basis of race, religion, sex, nationality and age (40 to 65) is forbidden by the Ontario Human Rights Code.

Employers must observe legislation administered by the occupational health and safety division that applies to the particular kind of workplace. Employers must also ensure the health and safety of employees.

Further information is available from the occupational health and safety division of the ministry of labour.

The Workmen's Compensation Act provides financial protection for workers injured in on-the-job accidents or suffering from industrial diseases. Compensation (75 per cent of lost wages, tax-free), payment of medical bills, rehabilitation and pensions are among benefits provided. The Act also protects employers because it is—in effect—an insurance plan, eliminating employee damage actions and spreading accident costs. As an employer, you will pay assessments based on your company's assessable payroll and the accident-cost record of your industry. Nine safety associations help employers protect employees and reduce accident costs. When starting a business, check with the revenue branch of the Workmen's Compensation Board.



Taxes

Federal corporation tax

This tax, levied on all corporations, is based on the amount of money the company makes minus the deductions allowed for expenses such as equipment purchases. Scheduled rates for the monthly payments are set by Revenue Canada. For further information write the district taxation office nearest you. New employer information kits and a booklet called *Income Tax and the Small Business* are available at these offices.

Provincial corporation tax

Ontario levies a corporation income tax calculated on the same basis as the federal tax. In addition, an annual capital tax is imposed on the paid-up capital of a corporation. Further information is available from the corporate tax branch of the ministry of revenue.

Personal income tax

Every Canadian resident pays personal income tax on income from all sources inside and outside Canada. Anyone who stays in the country at least 183 days is considered a resident for that year.

Proceeds from sole proprietorships and partnerships are also personally taxable.

The federal government collects personal income tax and remits the province's share which is 30 per cent in Ontario.

Federal sales tax

The federal government adds this tax to the manufacturer's selling price of most goods manufactured in Canada and to the duty-paid value of most imported goods.

Producers of goods subject to federal sales tax are required to obtain a sales tax licence. Further information can be obtained from the excise tax administration office of Revenue Canada or your district excise tax office.

Federal excise tax

This sales tax is added to the manufacturer's selling price or duty-paid value of luxury items such as jewelry. Complete information is available at Revenue Canada or your district excise tax office.

Ontario sales tax

This direct sales tax is added to the retail price of most goods sold within the province. Retail vendors must obtain licences and maintain adequate sales records. Items such as fuel and farm implements are exempt from the tax.

For further information on vendor's licences or exempted items, contact your local retail sales tax branch.

Municipal taxes

Municipalities levy a tax on land and buildings used for industrial purposes.

Product standards

Any products your business will produce for sale in Canada will have to meet certain standards to ensure their safety and help protect the consumer from faulty workmanship and misleading merchandising.

Canadian Standards Association

The CSA sets standards for many products ranging from hair-dryers to mobile homes. Most electrical goods must conform to its standards. Apply to the CSA Testing Laboratories, 178 Rexdale Blvd., Rexdale, Ontario M9W 1R2.

Underwriters Laboratories of Canada

This organization sets standards for fire protection equipment, building materials and related products. Apply to the Underwriters Laboratories of Canada, 7 Crouse St., Toronto, Ontario M1R 3A9.

Department of Consumer and Corporate Affairs

The standards branch of this federal ministry is responsible for testing and approval of weighing and measuring devices.

Food labelling and advertising are also controlled by this branch.

Department of National Health and Welfare

The health protection branch is responsible for all phases of selling, manufacturing and importing food, drugs, cosmetics and medical equipment. Emphasis is placed on the control of plant facilities, ingredients, formulae and packaging. For further information contact the health protection branch in Ottawa or the district office nearest you.

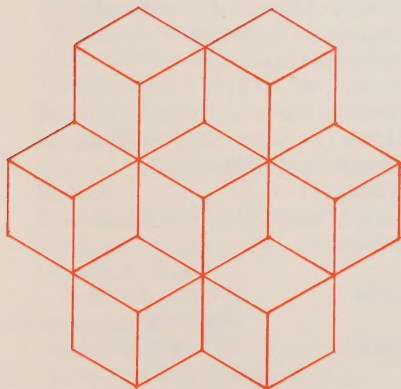
Trademarks, trade names and patents

A trademark is a word, symbol or picture distinguishing the goods or services produced by one business from those offered by others.

Trade names, on the other hand, identify the business—not the goods and services.

Patents give inventors the right to exclude others from making, using or selling their inventions for 17 years.

For further information, write the bureau of intellectual property of the department of consumer and corporate affairs or phone (819) 997-1420 about trademarks, 997-1142 about trade names or 997-1936 about patents.



Small business directory

Local and district addresses can be found in your telephone book. All government addresses are listed under government. Sub-headings indicate whether they are federal, provincial or municipal.

Planning

1. Ministry of Transportation and Communications (provincial)
Ferguson Block
Toronto, M7A 1Z8
or local office
2. your local Employment Canada office (federal)
3. OHIP (provincial)
7 Overlea Blvd.
Toronto, M4H 1A8
or local office
4. Ministry of Industry and Tourism (provincial)
Small Business Division
Hearst Block
900 Bay St.
Toronto, M7A 1T7
5. local Chamber of Commerce
6. Revenue Canada (federal)
Information Services Branch
875 Heron Rd.
Ottawa, K1A 0L8
or district taxation office
7. Workmen's Compensation Board (provincial)
2 Bloor St. E.
Toronto, M4W 3C4

Financing

1. Federal Business Development Bank
204 Richmond St. W.
Toronto, M5V 1V6
2. Ontario Development Corporation
900 Bay St.
Mowat Block
Toronto, M7A 2E7
3. Dept. of Finance
Ottawa, K1A 0G5
4. Dept. of Regional Economic Expansion
1300 Yonge St., 5th Floor
Toronto, M4T 1X3
5. Export Development Corporation
Suite 2011
145 King St. W.
Toronto, M5H 1J8

6. National Research Council
Ottawa, K1A 0R6
7. Dept. of Industry, Trade and Commerce
(federal)
240 Sparks St.
Ottawa, K1A 0H5

Legal advice

Lawyer Referral Service
Osgoode Hall
Toronto, Ontario

Small business and the law

1. Ministry of Consumer and Commercial Relations (provincial)
Partnerships Registry Office
Companies Services Branch
555 Yonge St.
Toronto, M7A 2H6
2. Ministry of Consumer and Commercial Relations (provincial)
Ontario Securities Commission
10 Wellesley St. E.
Toronto, M4Y 1G3
3. Ministry of Consumer and Commercial Relations (provincial)
Consumer Information Centre
555 Yonge St.
Toronto, M7A 2H6
4. Association of Canadian Franchisors
Suite 101
562 Eglinton Ave. E.
Toronto, M4P 1B9
5. Ministry of Labour (provincial)
Employment Standards Branch
400 University Ave.
Toronto, M7A 1T7
6. Ministry of Labour (provincial)
Industrial Relations Division
see above address
7. Ministry of Labour (provincial)
Occupational Health and Safety Division
see above address
8. Workmen's Compensation Board
(provincial)
Revenue Branch
2 Bloor St. E.
Toronto, M4W 3C4

Taxes

1. district taxation offices (federal)

| | |
|--------------------------------------|---|
| Ottawa | Century Bldg., 360 Lisgar St. 996-8340 |
| Kingston | 385-387 Princess St. 542-2831 |
| Belleville | New Federal Bldg., 11 Station St. 962-8611 |
| Toronto | Mackenzie Bldg., 36 Adelaide St. E. 869-1500 |
| Hamilton | National Revenue Bldg. 150 Main St. W. 522-8671 |
| Kitchener | National Revenue Bldg. 166 Frederick St. 579-6060 |
| St. Catharines | Federal Bldg., 32-46 Church St. 688-4000 |
| London | 451 Talbot St. 679-4211 |
| Windsor | 100 Ouellette Ave. 252-3611 |
| Sudbury | Federal Bldg., 19 Lisgar St. S. 675-9131 |
| Thunder Bay | Revenue Bldg., 201 North May St. 623-2751 |
| | |
| 2. Ministry of Revenue (provincial) | |
| Corporate Tax Branch | |
| Parliament Buildings | |
| Toronto, M7A 1Y1 | |
| 3. Revenue Canada (federal) | |
| Excise Tax Administration Office | |
| Billings Bridge Plaza | |
| Ottawa, K1A 0L5 | |
| 4. District Retail Sales Tax Offices | |
| (provincial) | |
| | |
| Belleville | 208 Dundas St. E. 962-9108 |
| Hamilton | 361 King St. W. 528-8393 |
| Kitchener | 449 Belmont Ave. W. 744-6318 |
| London | 310 Wellington Rd. 433-4033 |

| | |
|-------------------------------------|---|
| North Bay | 1500 Fisher St., Northgate Plaza 474-4900 |
| Orillia | 19 Front St. N. 326-3519 |
| Ottawa | 1419 Carling Ave. 728-5887 |
| Sudbury | 1536 La Salle Blvd. 674-3151 |
| Thunder Bay | 435 James St. S. 475-1681 |
| Toronto | 2300 Yonge St. 487-7161 |
| Welland | 76 Division St. 732-1318 |
| Windsor | 250 Windsor Ave. 252-4405 |
| St. Catharines and Niagara Falls | (See Welland Address) 688-1360 |

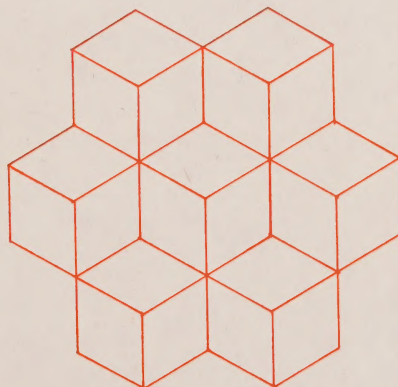
Product standards

1. Canadian Standards Association
Testing Laboratories
187 Rexdale Blvd.
Rexdale, M9W 1R2
2. Underwriters Laboratories of Canada
7 Crouse St.
Toronto, M1R 3A9
3. Dept. of Consumer and Corporate
Affairs (federal)
Place du Portage
1 Victoria St.
Hull, Quebec
K1A 0C9
or regional offices:
706 Global House
480 University Ave.
Toronto, M5G 1V2
781 Richmond St.
London, N6A 3H4
4. Dept. of National Health and Welfare
(federal)
Health Protection Branch
Tunney's Pasture
Ottawa, K1A 0L2

Other organizations

1. Association of Canadian Franchisors
Suite 101, 562 Eglinton Ave. E.
Toronto, M4P 1B9
2. Board of Trade of Metro Toronto
3 First Canadian Place
Toronto, M5X 1C1

3. The Advertising and Sales Club of
Toronto
19 Richmond St. W., Suite 301B
Toronto, M5H 1Y9
or local chapter
4. Purchasing Management Association
of Canada
80 Richmond St. W., Suite 1103
Toronto, M5H 2A4
5. Retail Council of Canada
74 Victoria St., Suite 525
Toronto, M5H 2A5
6. Retail Merchants Association of
Canada (Ontario) Inc.
1780 Birchmount Road
Scarborough, M1P 2H8
7. Canadian Manufacturers' Association
1 Yonge St., 14th Floor
Toronto, M5E 1J9
8. Canadian Restaurant Association
170 Bloor St. West, Suite 302
Toronto, M5S 1T9
9. Canadian Importers Association Inc.
2180 Yonge St., Suite 602
Toronto, M4S 2B9
10. Canadian Export Association
Commerce House, Suite 1020
1080 Beaver Hall Hill
Montreal, Quebec
11. Ministry of the Environment
(provincial)
Information Services Branch
135 St. Clair Ave. W.
Toronto, M4V 1P4



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Ontario

Ministry of Consumer and Commercial Relations
Larry Grossman, Q.C., Minister

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